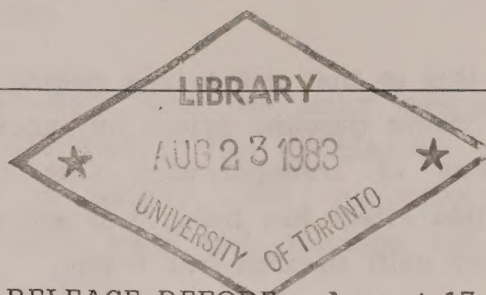




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NOT FOR RELEASE BEFORE: August 17, 1983

TORONTO, August 17, 1983 ... Canadians have managed to cope very well with oil prices despite many predictions to the contrary. While their lifestyles may have changed because of oil price increases, the structure of their cities has not, even though there were fears they would be seriously altered.

This is one of the findings of a research study prepared for the Ontario Economic Council. The study, An Economic Analysis of the Impact of Oil Prices on Urban Structure, was written by James R. Melvin and David T. Scheffman for the purpose of trying to measure and forecast the impact of actual and projected oil prices on the structure of urban areas.

When oil prices started skyrocketing, some people predicted that the energy price increases would stop the movement of people from cities into suburbs and cause a substantial amount of people to move back into the city centre. People were concerned about the important implications for policies involving things like roads, or where schools or recreational facilities should be built. If higher energy prices were going to cause a very substantial shift back to the centre of the city, then some of the kinds of policies such as closing down central city schools and building more schools in the suburbs, would clearly not be appropriate long-term policies.

This Economic Council study found that petroleum price increases have not, nor are they likely, to cause substantial changes in the way our cities are structured, or the way we live our lives in those cities.

The main reason for this is that people are making substitutions, they are coping with rising gasoline prices by substituting to less gasoline-intensive forms of transportation (for example, small cars). This substitution effect has been, and will continue to be more important than any shift towards less travel.

There have been two main tendencies noticed because of higher gasoline prices.

1. The fact that, on average, people are driving smaller cars.
2. The fact that all the cars people are driving are more efficient.

The authors also acknowledge that there may have been some shift to public transit, but that's a shift they find difficult to substantiate because most of the major studies on public transit use were done before the major oil price increases.

The authors argue that the most pronounced short-run effect of an unforeseen dramatic change in oil prices would be a change in the values of real estate near downtown relative to the suburbs (for example, higher oil prices raise the relative value of real estate near downtown).

Given the actual recent path of real gasoline prices, the conclusions reached in this study may appear to be anything but startling. On the other hand, it should be noted that there was a rather significant amount of concern expressed about whether or not oil price changes would fundamentally alter the structure of cities, and the location and type of dwelling in which people live. What this study is saying is that the authors don't think that is going to happen. The authors argue that policies determining the provision of major roads and other major transportation systems are likely to have a far greater effect on the structure of cities than recent policies designed to directly affect energy usage.

Conclusions

It seems likely that the major petroleum price increases have already occurred. The combination of reductions in demand, increases in supply, and the development of substitute fuel sources could very well preclude any major price rises in the foreseeable future.

It seems likely that technological progress will continue to improve the efficiency of automobiles, and one could even predict significant technological breakthroughs in other fuel sources such as electricity, hydrogen, or methane. Of course any such breakthroughs will put further downward pressure on the price of petroleum.

When he is faced with higher gasoline prices, the evidence very strongly suggests that the consumer will switch to more energy-efficient modes of transport, particularly to more efficient automobiles, with little long-run effect on the amount of travel.

Gasoline price changes will have only minor effects on the structure of cities, especially in the short-run, and even in the long-run. On the production side, petroleum price increases may speed up the shift of industry to the suburbs.

The authors argue that the major impact of increasing petroleum prices on urban structure would be to increase rents and property values in the downtown areas of major urban communities.

Finally, decisions on the design and provisions of major roads and transportation systems have far greater impact on the structure of cities than policies designed explicitly to deal with the "energy crisis".

BIOGRAPHICAL SKETCHES

James Melvin is a professor of economics in the Department of Economics at the University of Western Ontario.

David Scheffman is currently with the Bureau of Economic, Federal Trade Commission, in Washington, D.C. Formerly, he was a professor of economics at the University of Western Ontario.

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An Economic Analysis of the Impact of Oil Prices on Urban Structure, 145 pages, price \$10.50, is available at the following outlets:

The Ontario Government Bookstore, 880 Bay Street, Toronto, to those shopping in person. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). A cheque or money order, payable to the Treasurer of Ontario, must accompany all mail orders.

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